Program Budget Comparison

The following table summarizes the total budget requested by the Governor for the agency by year, type of expenditure, and source of funding.

Program Budget Comparison Budget Item	Base Fiscal 2008	Approp. Fiscal 2009	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 08-09	Biennium Fiscal 10-11	Biennium Change	Biennium % Change
FTE	48.25	48.25	53.25	53.25	48.25	53.25	5.00	10.36%
Personal Services	4,117,859	3,397,769	3,862,193	3,873,154	7,515,628	7,735,347	219,719	2.92%
Operating Expenses	7,584,904	7,373,915	7,785,577	7,762,921	14,958,819	15,548,498	589,679	3.94%
Benefits & Claims	0	15,000,000	0	0	15,000,000	0	(15,000,000)	(100.00%)
Debt Service	3,657	13,066	3,657	3,657	16,723	7,314	(9,409)	(56.26%)
Total Costs	**$11,706,420**	**$25,784,750**	**$11,651,427**	**$11,639,732**	**$37,491,170**	**$23,291,159**	**($14,200,011)**	**(37.88%)**
General Fund	3,915,922	3,332,424	3,873,127	3,870,103	7,248,346	7,743,230	494,884	6.83%
State Special	379,129	353,658	356,812	355,908	732,787	712,720	(20,067)	(2.74%)
Federal Special	7,411,369	22,098,668	7,421,488	7,413,721	29,510,037	14,835,209	(14,674,828)	(49.73%)
Total Funds	**$11,706,420**	**$25,784,750**	**$11,651,427**	**$11,639,732**	**$37,491,170**	**$23,291,159**	**($14,200,011)**	**(37.88%)**

Program Description

The Director's Office (office) provides overall policy development and administrative guidance for the department. Included in the Director's Office are the Deputy Director for Health Services, who also serves as the state Medicaid director, the Chief Operations Officer, legal affairs, personnel services, public information, the Prevention Resource Center including the AmeriCorps*VISTA Program, the Office of Budget and Finance, and the Office of Planning, Coordination, and Analysis. The Office of Planning, Coordination and Analysis is responsible for management of the Medicaid Management Information System (MMIS). The Department of Public Health and Human Services Statewide Advisory Council, the Native American Advisory Council, and the Montana Health Coalition are administratively attached and the director serves on the Interagency Coordinating Council for State Prevention Programs, which is attached to the Governor's Office.

Statutory authority is in Title 2, Chapter 15, part 22 and Title 53, Chapter 19, part 3, MCA.

Program Highlights

Director's Office
Major Budget Highlights

- ♦ The Director's Office overall budget proposal decreases 37.9 percent when compared to the 2009 biennium due primarily to the elimination of the HIFA waiver federal funds
    - The executive proposes increased general fund of 6.8 percent to support the state's share of indirect cost allocations

Major LFD Issues

- ♦ Executive proposal for funding additional human resource FTE can be reduced
- ♦ Measurable objectives could include timely budget status reports on the Medicaid budget

Program Narrative

The 2011 biennium budget request declines 37.9 percent or $14.2 million when compared to the 2009 biennium. The 2005 Legislature approved the Health Insurance Flexibility and Accountability (HIFA) waiver and appropriated funds in anticipation of approval. HIFA waivers allow states to waive requirements of the Social Security Act in areas such as comparability of services, statewideness, early and periodic screening diagnostic and treatment services (EPSDT), and cost sharing. Waiving these provisions allows states to be creative in designing new health care programs to meet the needs of various uninsured populations. The 2007 Legislature also appropriated funds in anticipation of approval of the HIFA waiver during the 2009 interim. To date, while the Centers for Medicare and Medicaid (CMS) has not denied the request, department officials indicate CMS is not approving these types of waivers. The department has not included $30 million in additional federal funds for HIFA in the 2011 biennium budget.

Present law changes for the Director's Office are negative for both years of the 2011 biennium due to removal of department wide termination payouts of about $1,187,000. Agencies pay accumulated annual leave and a portion of unused sick leave when employees retire or leave state employment. Termination payouts are recorded in the personnel program budget in the Director's Office and then removed from the base budget as a one-time expense. Removal of termination costs accounts for a reduction of about $630,000 in general fund, $123,000 in state special revenues and $434,000 in federal funds from the FY 2008 base budget as compared to the annual request for the 2011 biennium. Funds are transferred from other divisions in DPHHS to pay termination costs. Increases in personal services and operating costs offset part of the reductions.

2009 Biennium Major Goals

The following provides an update of the major goals monitored by the Legislative Finance Committee (LFC) during the 2009 interim.

The LFC monitored the program goal to complete a study of the Medicaid Management Information System (MMIS) and make recommendations on the necessity for improvements to the current system or of a system rewrite. The MMIS administration is included as part of the functions of the Director's Office. Proposed changes to the codes used within the system to make provider payments will require changes to the system in the 2011 biennium. The 2007 Legislature approved a one-time-only restricted biennial appropriation of $800,000, $200,000 general fund, in FY 2008 to analyze the current MMIS and make recommendations for improvement or rewrite of the system.

<u>Status:</u>

As of December 2007, the LFC determined the project was on track and released it from further review by the committee.

MMIS is again part of the budget deliberations for the legislature. The executive proposes including major information technology (IT) projects within HB 10, the bill for the Long Range Building Program, in the 2011 biennium. Included in the proposed bill is a decision package for a rewrite of MMIS at a cost of $65.5 million, $62 million in federal funds and $3.5 million in general fund. Part of the need for the rewrite is that the diagnostic codes that are used to make payments to Medicaid providers are expanding from 4,000 codes to 10,000 codes. As this is happening on a national level, several other states have already rewritten their MMIS programs. DPHHS proposes to use another state's system and modify it to fit Montana's needs, reducing the costs. Operational costs related to the current MMIS are included in the proposed budget for the Director's Office. It is unclear from the long range building IT proposal if the costs of operating the new system will impact the Director's Office. Refer to Volume 7, for further information on the proposal.

2011 Biennium Major Goals

The Director's Office is required by law to submit goals and measurable objectives as part of the budgeting process. The LFD recommends that the legislature adopt specific program goals and corresponding objectives for monitoring during the interim. The identified significant goal for the Director's Office is improve and protect the health, well-being, and self-reliance of all Montanans.

The Director's Office includes several objectives for this goal. The Office of Planning, Coordination, and Analysis has two objectives for the goal:

- Assist top management in the analysis and development of policy determining impact on clients in services through advanced professional research, statistical reporting, analysis, and interpretation of health care data (e.g. Medicaid) as measured by data indicator reports completed on a monthly, quarterly and annual basis and Medicaid projections completed monthly from October to June each year
- Monitor to ensure the proper management of the MMIS system as measured by 95 percent of all MMIS claims are paid or denied within 30 days of receipt

LFD ISSUE

Additional Performance Measurement

The total 2009 biennium appropriation for Medicaid was $1.8 billion in total funds or 55 percent of the HB 2 budget. General fund supports almost $419.0 million of the appropriation. Due to the significance of Medicaid to the state's budget and the potential for major variances in the costs over the biennium, the legislature required DPHHS to report the status of the budget throughout the fiscal year. 53-6-110, MCA requires that DPHHS provide to the LFC monthly reports containing estimates of the cost for Medicaid services and a budget status report for all department programs. The first report is due November 15 each year. In addition, a fiscal year end summary of Medicaid costs and budget status reports is due to the LFC at the first meeting following the end of the fiscal year.

Current information is vital to:

- tracking trends
- examining increasing or decreasing costs within various programs
- identifying changes resulting from fluctuating economic conditions

The information contain in the budget status reports could assist the legislature monitoring trends, costs, and changes for the Medicaid program.

For example, supplemental appropriations have been required for the Medicaid program in past biennia. Timely budget status reports could have provided the LFC information on the cost overruns in advance of the supplemental budget request, allowing for legislative input on priorities for cost reductions. In FY 2008, Medicaid expenditures were lower than projected in the budget, allowing DPPHS the flexibility to make $12.1 million in general fund appropriation transfers and operating plan adjustments. Had the LFC had timely information on the magnitude of the funding available to transfer it could have discussed legislative priorities for the funds.

The figure shows the due dates and receipt dates of the budget status reports in FY 2008.

Director's Office
Budget Status Reports

Due Date	Received Date
9/15/2007	9/5/2007
11/15/2007	11/29/2007
12/15/2007	2/15/2008
1/15/2008	3/21/2008
2/15/2008	5/27/2008
3/15/2008	6/12/2008
4/15/2008	
5/15/2008	
6/15/2008	
9/15/2008	9/15/2008

The budget status report on the various DPHHS programs was either not received or past due for 8 of the 10 required reports. The delays limit the usability of the report as a tool for legislative monitoring of the Medicaid budget. The only reports received either on time or in advance were those for the fiscal year end.

In addition, the data contained in the reports lagged the report dates by several months. For example, the costs included in the report due on December 15, 2007 contained October cost data from the state's accounting system and Medicaid estimates from November. As the report was not received by the Legislative Fiscal Division until February 15, 2008, the costs and estimates were between three to four months old and ineffectual for the intended purpose of updating the LFC on the status of the most significant cost driver in the state's budget.

Option: Require the Director's Office to include timely receipt of current budget status reports by the LFD as one of the measurable objectives for its goal to improve and protect the health, well-being, and self-reliance of all Montanans and recommend the objective be reviewed by the LFC during the interim.

Funding

The following table shows program funding, by source, for the base year and for the 2011 biennium as recommended by the Governor.

Program Funding Table
Director'S Office

Program Funding		Base FY 2008	% of Base FY 2008	Budget FY 2010	% of Budget FY 2010	Budget FY 2011	% of Budget FY 2011
01000	Total General Fund	$ 3,915,922	33.5%	$ 3,873,127	33.2%	$ 3,870,103	33.2%
	01100 General Fund	3,915,922	33.5%	3,873,127	33.2%	3,870,103	33.2%
02000	Total State Special Funds	379,129	3.2%	356,812	3.1%	355,908	3.1%
	02099 69010-Vista-Community Cost Shr	77,246	0.7%	66,367	0.6%	66,283	0.6%
	02377 02 Indirect Activity Prog 04	301,883	2.6%	290,445	2.5%	289,625	2.5%
	02789 6901-Chip/Mcha Tobacco Sett Fd	-	-	-	-	-	-
03000	Total Federal Special Funds	7,411,369	63.3%	7,421,488	63.7%	7,413,721	63.7%
	03072 69010-Cns-Grants-Vista	293,272	2.5%	293,383	2.5%	293,399	2.5%
	03133 Medicaid Infrastructure 93.768	-	-	-	-	-	-
	03238 Enh Ehr Clincal Dec Making	-	-	-	-	-	-
	03426 Chip Program Fed	-	-	-	-	-	-
	03580 6901-93.778 - Med Adm 50%	9,843	0.1%	10,177	0.1%	10,182	0.1%
	03583 93.778 - Med Ben Fmap	-	-	-	-	-	-
	03594 03 Indirect Activity Prog 04	7,108,254	60.7%	7,117,928	61.1%	7,110,140	61.1%
Grand	Total	$ 11,706,420	100.0%	$ 11,651,427	100.0%	$ 11,639,732	100.0%

The Director's Office is funded through a combination of general fund, and state and federal special revenues. The majority of the functions are supported through cost allocations whereby the costs of the Director's Office are allocated to the other divisions within DPHHS. The department has a complex public assistance cost allocation plan reviewed by six federal agencies and approved by Montana's federal oversight agency. Federal indirect cost allocations make up 95.8 percent of the federal revenues in the 2011 biennium. Federal special revenues decrease 49.7 percent between the 2011 and 2009 biennia. The elimination of funding for the HIFA waiver accounts for the majority of the decrease in federal special revenues between 2009 biennium and 2011 biennium.

General fund supports about 33 percent of the Director's Office in the 2011 biennium budget, increasing 6.8 percent when compared to the 2009 biennium, due primarily to support for additional human resource staff and statewide present law adjustments.

Two state special revenue funds support the Director's Office: 1) cost allocations, budgeted at about $267,000 annually; and 2) community cost shares for VISTA volunteers. The Prevention Resource Center administers the VISTA program, which is also supported by a federal grant.

LFD COMMENT

For FY 2008 and FY 2009, DPHHS transferred $871,172 and $888,590 for the MMIS system from the Health Resources and Addictive and Mental Disorders Division to the Director's Office. These transfers increased appropriations for general fund by $367,223, state special revenue by $23,352, and federal special revenue by $480,597 in FY 2008.

Budget Summary by Category

The following summarizes the total budget by base, present law adjustments, and new proposals.

Budget Summary by Category	General Fund				Total Funds			
Budget Item	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget	Budget Fiscal 2010	Budget Fiscal 2011	Biennium Fiscal 10-11	Percent of Budget
Base Budget	3,915,922	3,915,922	7,831,844	101.14%	11,706,420	11,706,420	23,412,840	100.52%
Statewide PL Adjustments	(206,482)	(200,167)	(406,649)	(5.25%)	(493,835)	(480,489)	(974,324)	(4.18%)
Other PL Adjustments	0	0	0	0.00%	0	0	0	0.00%
New Proposals	163,687	154,348	318,035	4.11%	438,842	413,801	852,643	3.66%
Total Budget	$3,873,127	$3,870,103	$7,743,230		$11,651,427	$11,639,732	$23,291,159	

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the Governor. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments	Fiscal 2010					Fiscal 2011				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					(369,521)					(358,191)
Vacancy Savings					(149,930)					(150,384)
Inflation/Deflation					1,626					2,133
Fixed Costs					23,990					25,953
Total Statewide Present Law Adjustments					**($493,835)**					**($480,489)**
Grand Total All Present Law Adjustments					**($493,835)**					**($480,489)**

Program Personal Services Narrative

The following information is provided so that the legislature can consider various personal services issues when examining the agency budget. It was submitted by the agency and edited for brevity by the LFD.

- **Market Rate -** As of October 2008, the Director's Office estimates employees will be at 95 percent of the 2008 market survey, after implementing the HB 13 pay adjustments. This is below the agency's target of 100 percent of market
- **Vacancy -** The Director's Office had a 16 percent turnover for attorneys in the Office of Legal Affairs. The office finds it difficult to recruit individuals with experience in Medicaid or with its payment systems. To attract applicants and remain competitive, the office has adjusted the related pay bands, thereby increasing its target market ratios.
- **Legislatively applied vacancy savings -** Due to the difficulty in filling positions, positions have remained open for longer periods of time generating the legislatively applied vacancy savings in the 2009 biennium. Savings above the required 4 percent was used for overtime, pay adjustments, and funding for modified positions.
- **Pay Changes -** The office used vacancy savings to grant pay changes above those approved in HB 13.
- **Retirements -** The office estimates 32 employees or 65 percent of the office workforce will be eligible for full retirement in the 2011 biennium. The estimated compensated absence liability for these retirements is $48,888. The office estimates a total of eight employees will retire during the 2009 biennium. The office is working to cross train various staff within the office to prepare for these potential retirements.

New Proposals

New Proposals										
	Fiscal 2010					Fiscal 2011				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 6101 - Fixed Cost Workers Comp Management Prgm Allocation										
04	0.00	36,822	6,782	55,115	98,719	0.00	31,927	5,880	47,787	85,594
DP 40013 - Human Resources FTE										
04	5.00	126,865	23,367	189,891	340,123	5.00	122,421	22,547	183,239	328,207
Total	5.00	$163,687	$30,149	$245,006	$438,842	5.00	$154,348	$28,427	$231,026	$413,801

DP 6101 - Fixed Cost Workers Comp Management Prgm Allocation - The Workers' Compensation Management Program at the Department of Administration was funded by the 2007 Legislature with a one-time-only (OTO) general fund appropriation. For the 2011 biennium and beyond, the executive proposes the program be funded via a fixed cost allocation. The allocation is based upon the average number of payroll warrants issued per pay period. Because the program was approved as an OTO for the current biennium, it must be presented as a new proposal for the next biennium. Therefore, the allocation cannot be included as part of the standard present law fixed cost process.

DP 40013 - Human Resources FTE - This request is for 1.00 FTE for a human resource manager and 4.00 FTE for human resource specialists, for the Human Resource Unit, and also includes training expenses to bring in speakers and to travel to the institutions. A total of $668,330 is requested for the biennium, including $249,286 general fund, $45,914 state special revenue, and $373,130 federal funds.

The following information is provided so that the legislature can consider various performance management principles when examining this proposal. It is as submitted by the agency, with editing by LFD staff as necessary for brevity and/or clarity.

Justification: The Human Resources Unit is being reorganized to better serve the needs of the agency's nearly 3,000 employees and address the 30 collective bargaining agreements negotiated with over ten labor organizations. Currently, the DPHHS human resource (HR) functions are done by 10.00 FTE in professional capacities, and 2.50 administrative support staff in the Helena office. In addition, 3.00 FTE are located in facilities in Butte, Deer Lodge, and Boulder and some part time FTE in three of the facilities that provide HR support. Four new FTE are being requested. One HR Supervisor would be added to manage the unit services related to pay, classification, workforce development and recruitment. In addition, 4 HR specialists would be assigned to understaffed program areas of pay/compensation, labor relations, civil rights compliance, and training.

By comparison, the next largest state agencies, the Department of Transportation and the Department of Corrections, have a significantly higher ratio of HR staff/employees in support of their HR functions. The Department of Corrections has 1250 employees statewide served by approximately 22 HR staff directly reporting to the HR Division Administrator with additional training and safety staff in the DOC facilities and institutions. The Department of Transportation has 2300 employees across the state and is supported by 39 HR staff reporting to the HR Division Administrator. This includes 5 district HR District Specialists located outside of Helena.

For these three examples, the approximate HR staff / employee ratio in each agency is as follows:

- MT Department of Transportation – 1:59
- MT Department of Corrections – 1:57
- Department of Public Health and Human Services –
  With Helena HR staff only – 1:240
  With Helena and indirect facility staff – 1:200

Goals: objectives:

1. Build agency wide pay plan rules and guidance for union and non-union staff to be used in consideration of the 2008 market rates and in collective bargaining negotiations.
2. Respond in an appropriate, timely, legally sound fashion to issues related to discrimination in employment or provision of agency services.
3. Enhance workforce development, recruitment and retention outcomes for the agency.
4. Maintain effective, collegial relationships between agency management and thirty individual bargaining units.
5. Ensure agency compliance with federal and state labor, employment, and civil rights statutes and rules.

Project Outcomes and Milestones:

1. Recruit and hire Compensation and Classification professional staff (anticipated start date – 1/1/2008) to lead and implement collaborative agency process.
2. Convene agency compensation team to identify needs and build compensation pay plan rules (by March 31, 2008)
3. Review current agency pay rates in relation to 2008 market rates, agency pay plan rules in context of union contract negotiations (by May 1, 2009.)
4. Recruit and hire a Civil Rights Specialist to investigate and respond to discrimination claims (by March 1, 2009).
5. Implement non-discrimination training policy for agency staff.
6. Review and revise agency nondiscrimination policies and procedures.
7. Recruit and hire Workforce Development Specialist (by July 1, 2009)
8. Design comprehensive agency succession plan to respond to increased employee retirements and employee turnover.
9. Review and revise agency recruitment and selection policy and procedures.
10. Design agency training plan which focuses on professional development and investment in our employees.
11. Renegotiate thirty agency collective bargaining agreements and pay addendums by June 30, 2009.
12. Effectively support managers in staff disciplinary actions, grievance handling, and labor relations efforts.
13. Institute and manage effective Labor Management Committees throughout the agency.
14. Maintain compliance with new Title I and Title II ADA requirements including self-assessments, transition plans, and management and employee support.
15. Conduct agency ADA and FMLA compliance training for employees and supervisors.

LFD ISSUE

Time bound components of the project outcome measurements are all in the 2009 biennium

Option: As the proposal is for the 2011 biennium, the legislature may wish to discuss with the Director's Office how it can develop time-bound measurements for success for the 2011 biennium

Funding: The funding for this request consists of $249,286 general fund, $45,914 state special revenue, and $373,130 federal funds.

Evaluation: Service to the agency customers will be monitored and evaluated through regular feedback opportunities, training evaluations, and customer surveys. Workforce development outcomes will be measured by employee turnover, retirements, and success of recruitment and retention efforts.

Obstacles: The legal and statutory environment is changing quickly and requires constant education and review by the HR staff. The complex collective bargaining environment in the agency is challenging and time consuming. A shortage of office space and funding to support additional staff has been an ongoing challenge.

Risk: Failure to adequately support the human resources function of the agency results in higher turnover, more grievances and complaints against the agency, and low employee and client morale. To accomplish the mission of the agency, staff of the agency must be professional, motivated and well prepared through appropriate education and training. Support for supervisors and managers at all levels of the agency results in fewer problems and higher productivity.

LFD ISSUE

Director's Office used modified positions for human resource functions funded with the indirect cost allocations in FY 2008. In addition to the office's 48.25 FTE, 4.44 modified FTE were supported through budgeted resources. The majority of the funding is generated through indirect cost allocations. The office was able to fund its legislatively applied vacancy savings, grant pay raises, and fund modified FTE using indirect cost allocations and savings generated through vacant positions. The agency was also able to fund the modified positions in the 2007 biennium using similar funding mechanisms. Of the 4.44 modified positions, 1.00 FTE at a cost of $58,154 was a human resource specialist. The executive is proposing 5.00 FTE for the human resource function at a cost of $527,655.

Option:
Given that the Director's Office was able to fund one human resource position in the base year without additional funding, the legislature may wish to consider reducing this decision package by $116,308, the costs of the position the office was able to fund using available resources.